

# INTEROFFICE MEMO



County of San Bernardino

**DATE** May 25, 2012**PHONE** 387-5417**FROM** GREGORY C. DEVEREAUX  
Chief Executive Officer**TO** MEMBERS  
Board of Supervisors

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**SUBJECT** 2012-13 RECOMMENDED BUDGET

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On June 30, 2011, the Board of Supervisors and the San Bernardino Associated Governments (SANBAG) Board adopted a Countywide Vision, which has since been adopted by nearly every city and town in the County as well as many school, water, and special districts. This fulfilled a key goal established by the Board of Supervisors, and has provides County government with clearer direction as it makes budget decisions.

The Countywide Vision calls for the creation of a "complete county" that capitalizes on its many assets to collaboratively establish a sustainable system of economic opportunity, education, well-being and amenities. In this document you will see that the County organization incorporated the Countywide Vision's elements and values into the 2012-13 Recommended Budget.

I hereby submit for the Board's consideration the 2012-13 Recommended Budget, guided by the Countywide Vision. This budget of \$4.06 billion lays the framework to achieve the "complete county" by allocating resources to achieve Board priorities and objectives. The 2012-13 Recommended Budget has been balanced and is consistent with policy direction received from the Board of Supervisors. No reserves are being used to fund ongoing costs. There is limited use of one-time sources to fund costs as part of a multi-year plan to address the five-year structural deficit, which is consistent with county policy. The 2012-13 Recommended Budget addresses the following key issues:

- A continuing structural budget deficit in both the General Fund and the Fire District;
- Underfunded programs/projects, in Land Use Services and Public Works which could result in service deficiencies;
- Unaddressed needs for basic operating systems, such as maintenance, support, and upgrade of countywide applications;
- Facility needs, such as the Downtown Building Project and the Sheriff/Coroner/Public Administrator's Crime Lab and Aviation Facility.

In May 2011, a plan was implemented to eliminate the cumulative five-year structural deficit for fiscal years 2011-12 through 2015-16. The County continues to focus on this five-year period. The County has resolved the 2011-12 structural deficit, so the 2012-13 Recommended Budget focuses on the remaining \$91.5 million cumulative structural budget deficit though 2015-16, of which \$33.2 million pertains to 2012-13. Significant ongoing issues include declining revenues, previously negotiated salary and benefit increases, retirement cost increases, a necessary increase to the County Fire subsidy, and additional staffing requirements for the Sheriff/Coroner/Public Administrator Adelanto Detention Center Expansion.

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To address this deficit, the County Administrative Office has developed a strategic plan which includes the following measures:

- Defer funding the \$34.2 million Adult Detention Center Staffing cost by funding it from non-general fund sources or mothball older, less efficient facilities and shift staff to this facility;
- Implement departmental reductions of \$11.8 million;
- Achieve employee compensation reductions of \$8.9 million;
- Increase AB 109 revenue for jailed prisoners by \$5.8 million;
- End funding of increased health care benefits after current labor agreement expires estimated at \$5.2 million;
- Reduce contributions to the 800 MHz Upgrade project by \$4.0 million;
- Reduce the base allocation to the Capital Improvement Program by \$3.3 million.

***It is important to note that this strategic plan does not include any potential impacts of the 2012-13 State Budget, which are unknown and unpredictable at this time.***

Ongoing mitigations beginning in 2012-13 that have a departmental impact include a reduction of discretionary general funding for the Economic Development Agency, Public Defender, Regional Parks, County Counsel, and Assessor/Recorder/County Clerk. In addition, reductions were achieved in the Information Services Department internal service fund programs. The Sheriff/Coroner/Public Administrator will also have a departmental impact as a result of anticipated employee compensation reductions not achieved in 2011-12 and funding prior year MOU increases with one-time sources. County Fire also had to make service reductions totaling \$3.0 million to be in balance in 2012-13, despite increased discretionary general funding of \$4.6 million in 2012-13.

**THE BUDGET IN BRIEF**

This budget book presents the general fund, special revenue funds, capital project funds, internal service funds and enterprise funds of the County. The total spending authority for these funds in 2012-13 is \$4.06 billion. The general fund spending authority totals \$2.3 billion and is funded by countywide discretionary revenues (primarily property taxes), departmental revenues, and other funding sources of the General Fund. Of this \$2.3 billion, only \$446.3 million is truly discretionary.

	Spending Authority (In Millions)		
	2011-12	2012-13	Change
	Modified	Recommended	
General Fund	\$ 2,234.9	\$ 2,289.7	\$ 54.8
Restricted Funds	\$ 100.9	\$ 92.7	\$ (8.2)
Capital Project and Debt Service Funds	\$ 231.8	\$ 228.5	\$ (3.3)
Special Revenue Funds	\$ 620.8	\$ 580.5	\$ (40.3)
Enterprise Funds	\$ 662.4	\$ 670.5	\$ 8.1
Internal Service Funds	\$ 180.8	\$ 194.7	\$ 13.9
	<u>\$ 4,031.6</u>	<u>\$ 4,056.6</u>	<u>\$ 25.0</u>

For 2012-13, the \$54.8 million increase in spending authority for the General Fund is primarily the result of increases in Public Safety Realignment funding (AB 109) for



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Sheriff/Coroner/Public Administrator-Detentions and the Probation Department, to house/supervise inmate and parolee populations classified as low-level offenders, an increase to the Human Services Administrative Claim due to continuing caseload growth, and increased In-Home Supportive Services provider payments.

The \$40.3 million decrease in Special Revenue Funds can be primarily attributed to a reduction in projected costs in the Community Development and Housing and Mental Health Services Act budget units due to the use of one-time funding in 2011-12 to complete projects.

The increase of \$13.9 million in Internal Service Funds is primarily due to an increase in Risk Management's Insurance Funds resulting from costly settlements and increased liability claims experience.

	<b>Budgeted Staffing</b>		
	<b>2011-12 Modified</b>	<b>2012-13 Recommended</b>	<b>Change</b>
General Fund	13,165	13,193	28
Other Funds	5,777	5,856	79
	<u>18,942</u>	<u>19,049</u>	<u>107</u>

Recommended budgeted staffing for 2012-13 is 19,049, a total increase of 107 positions from the 2011-12 modified budget. General Fund staffing has been increased by 28 positions, from 13,165 to 13,193 primarily resulting from increased staffing for the Sheriff/Coroner/Public Administrator due to the implementation of AB 109 (Public Safety Realignment). The additional staffing will help ensure the overall safety for employees and inmates of the County jail system. The staffing in all other funds has been increased by 79 positions from 5,777 to 5,856, primarily resulting from ARMC's participation in the Low Income Health Program and a Delivery System Reform Incentive Plan. Although staffing increased significantly, many of the positions are part-time and will allow ARMC to meet required staffing ratios in addition to scheduling flexibility.

**IDENTIFIED NEEDS**

The County Administrative Office has identified and recommends the following critical areas be addressed in 2012-13 in order to prevent unnecessary costs and risks:

- General Plan and Development Code updates, and development of Specific Plans or Community Plans
- System related upgrade, maintenance, and support costs
- Replacement of buildings beyond their useful life
- Public Works and County Fire funding shortfalls

**HIGHLIGHTS OF 2012-13 RECOMMENDED BUDGET**

Following are programmatic and budgetary highlights in relation to the 2012-13 Countywide Goals as adopted by the Board of Supervisors on April 10, 2012.

**Create, Maintain, and Grow Jobs and Economic Value in the County**

- In 2012-13, a key strategy of the Economic Development Agency (EDA) is to support businesses coming into and currently existing in the County, by ensuring that Workforce Investment Act (WIA) funding assists with layoff aversion, business services and training for specific workforce skills. Through these efforts, EDA will work to keep existing businesses thriving and create an environment that is appealing to businesses looking to relocate.

**Improve County Government Operations**

- In 2011-12, the County Administrative Office set aside \$30.0 million to facilitate the Downtown Building Project including the purchase of new buildings, the seismic retrofit and modernization of certain existing buildings, and the demolition of older facilities in which additional investment is not recommended. To support additional square footage requirements and fund furniture, fixtures, and equipment, the County Administrative Office recommends adding an additional \$10.0 million in 2012-13.
- Due to budget reductions in 2008-09, the Information Services Department Application Development Division eliminated 7 programmer positions. As a result, the maintenance and support of locally funded applications has fallen behind. The 2012-13 Recommended Budget builds back \$1.6 million in ongoing discretionary general funding (net county cost) into the base to fund 4 additional positions to move toward supporting and maintaining locally funded applications and systems at "ideal" levels, as recommended by the Information Services Department.
- Phase one of the San Bernardino County Electronic Procurement Network (ePro) implementation was completed in May 2012, resulting in approximately 3,000 registered vendors and 1,000 county users across all County departments. Phase two, funded by an additional \$368,000 ongoing allocation of discretionary general funding beginning in 2012-13, will include integration with the financial accounting system (FAS) in order to eliminate manual entry of encumbrances and further streamline the procurement process.
- For 2012-13, the Sheriff/Coroner/Public Administrator has established separate budget units for its detention facilities and law enforcement contracts, thus providing for more effective budget management, reporting and control of these functions.
- The 2012-13 recommended spending plan includes one-time discretionary general funding of \$700,000 for the provision of new permitting software for Land Use Services to allow interfaces between Land Use Services, Public Works, and County Fire to help streamline the permitting process; and \$2.0 million to upgrade the Public Works Financial Cost Accounting system, which provides tracking and reporting information for projects to comply with federal and state requirements.
- An additional one-time allocation of discretionary general funding of \$760,000 has been included for Land Use Services, \$400,000 to fund high-level consulting services to identify efficiencies in business processes, streamline day-to-day operations, assist with high profile project management, and provide staff training; and \$360,000 to enable the continuation of the Medical Marijuana enforcement program.



**Operate in a Fiscally Responsible and Business-like Manner**

- The Human Resources Department is negotiating with four labor unions to obtain employee concessions to address the five-year structural deficit. If achieved, these concessions will generate \$8.9 million in ongoing savings. The recommended spending plan includes \$4.5 million in bridge funding as reductions may not be implemented until mid-year 2012-13.
- With the recent California Supreme Court decision pertaining to ABx1 26, a one-time allocation of \$300,000 in 2012-13 to fund costs associated with Oversight Boards and the dissolution of Redevelopment Agencies is recommended for Economic Development Agency.
- In December 2011, the Board approved additional funding for Land Use Services to hire a consultant to conduct a Development Impact Fee analysis and recommended fee structure. This project will continue in 2012-13, and a report is estimated to be presented to the Board of Supervisors by the end of the fiscal year.
- The Sheriff/Coroner/Public Administrator decreased reliance on U.S. Marshal inmate housing revenues by \$7.0 million; this reduction is being offset by additional AB 109 funding.
- The 2012-13 Recommended Budget includes a \$300,000 increase in ongoing discretionary general funding to Flood Control to comply with current National Pollutant Discharge Elimination System (NPDES) permit activities in the unincorporated areas outside of the Santa Ana River Watershed.

**Ensure Development of a Well-Planned, Balanced, and Sustainable County**

- Public Works – Transportation Proposition 1B projects in 2012-13 of \$17.0 million include rehabilitation of Sheep Creek Road; Yucca Loma/Yates road widening; Caughlin Road in Phelan and Hatchery Drive in Moonridge paving; and Valley Boulevard and Cedar Avenue new median construction.
- Public Works – This budget funds Transportation at a level which will sustain the pavement condition index (PCI) of 76 for county maintained roads by doing surface treatments on 45 miles and rehabilitating 5.9 miles of roads by providing a one-time \$5.0 million allocation of discretionary general funding; and will provide for the installation of a signal at Valley Boulevard at Banana Avenue in the Fontana area due to a one-time \$250,000 allocation of discretionary general funding.
- The 2012-13 recommended spending plan also includes one-time allocations of \$5.9 million to fund right-of-way, environmental, and construction costs for the Rim Forest Storm Drain Project to avert runoff damage; and \$4.0 million for Lake Gregory Dam remediation to meet State seismic stability requirements and evacuation rates.
- In 2012-13, the County Library will be opening the Baker Family Learning Center in the unincorporated Muscoy Community. Looking ahead to 2013-14, the Library anticipates some serious financial challenges due to declining property tax revenues and increasing costs. Therefore, the Library is exploring several cost savings measures that may be implemented in early 2013, as a preemptive measure to lessen the "all at once" impact in 2013-14.



- The Regional Parks Department plans to improve and reopen the campground at Glen Helen Regional Park and commit \$100,000 in Capital Improvement Funds for deferred maintenance projects at Calico Ghost Town. The department is planning to have an increased number of special events and new activities through public/private partnerships at Prado and Cucamonga-Guasti Regional Parks, and Calico Ghost Town. Also planned is the construction of 3.5 miles of extension to the Santa Ana River Trail in the San Bernardino/Redlands area.
- The 2012-13 Recommended Budget reflects an additional one-time allocation of \$2.3 million for Land Use Services-Planning to update the General Plan, create more specific plans to better reflect the unique character of all areas of the County, and to amend the development code and master plans. These revisions will ensure the most appropriate standards are being applied in all areas of the County.

**Maintain Public Safety**

- Construction commenced in June 2011 on the Sheriff/Coroner/Public Administrator's Adelanto Jail Expansion Project, which is projected to add approximately 1,400 jail beds to the county's Adelanto Detention Center by late August 2013. In order to help fund the \$120 million project, the Sheriff/Coroner/Public Administrator pursued and was awarded \$82.3 million from the State as part of its Assembly Bill (AB) 900 County Jail Lease-Revenue Funding Program.
- In 2012-13, the Sheriff/Coroner/Public Administrator's Aviation Division is negotiating to move its operations to the San Bernardino International Airport, as the current hangar used by the Aviation Division requires millions of dollars in repairs and upgrades. Moving to the new location will result in increased square footage and an updated facility. The new lease will be funded from the termination of existing leases and federal asset forfeiture money will be used to fund one-time costs associated with the move.
- The Sheriff/Coroner/Public Administrator is adding 38 new positions due to implementation of AB 109 (Public Safety Realignment). These positions are needed to manage the "low-level" offenders now being ordered to serve their sentence in a county facility rather than the state prison system. The additional staffing will help ensure the overall safety for employees and inmates of the County's jail system. The costs of these positions are offset by AB 109 funding.
- A one-time allocation of \$1.3 million is recommended in 2012-13 for redesign to expand and remodel the Sheriff/Coroner/Public Administrator's existing Crime Lab facility; and additional \$0.7 million has been included for the Fire Station in Needles.
- The 2012-13 Recommended Budget includes a \$4.6 million increase in the ongoing County Fire subsidy for emergency vehicle replacement and operational needs due to continued property tax revenue reductions. Despite this funding increase, County Fire still has to reduce their budget by \$3.0 million resulting in a reduction of 23 positions which includes replacing full-time fire fighters with paid call fire fighters at two fire stations.
- The Probation Department's budget is increased by \$5.7 million primarily due to additional appropriation for the full year cost of implementing AB 109. These costs include staffing, operation of day reporting centers, contracts with community based organizations, and transitional housing needed to supervise and rehabilitate "low



level" adult offenders transferred to the County from state parole caseloads. The department's 2012-13 budget also reflects the addition of \$5.3 million in Juvenile Probation funding from the state to support a broad spectrum of services targeting at-risk youth, juvenile offenders and their families.

- Ongoing funding of \$20.0 million has been included for the 800 MHz Upgrade project to address the aging public safety 800MHz digital radio system and infrastructure requirements. This is a reduction of \$4.0 million a year which has been redirected to other general fund needs and was made possible because of a projected fund balance for this project from this fiscal year.

**Provide for the Health and Social Services Needs of County Residents**

- The County successfully implemented its Low Income Health Program, ArrowCare, January 1, 2012 which is intended to be a bridge to healthcare reform in 2014. This program covers childless adults ages 19-64 not otherwise covered by Medi-Cal. By implementing this program, the County's goal is to provide coverage to this population through the health departments so that the County will be the provider of choice in 2014. To this end, the Department of Public Health has begun providing primary care services, and has received a Federally Qualified Health Center designation for the Hesperia clinic to serve both the existing and new population. The Arrowhead Regional Medical Center (ARMC), Behavioral Health, Public Health, and Transitional Assistance departments will continue their collaborative relationships to offer fully integrated care to County residents.
- Meeting the increased volume demands and to comply with regulations, ARMC opened two additional nursing units in 2011-12, and will be opening an observation unit in 2012-13. ARMC continues to take the steps necessary to respond quickly to the needs of County residents while maximizing reimbursements and controlling costs. These steps will ensure ARMC's viability with healthcare reform.
- ARMC also successfully met the current milestones associated with the new Incentive Plan, a new funding source in 2012-13 under the current Medi-cal waiver that provides for infrastructure development, innovation redesign, population focused improvement and urgent improvement in quality and safety. This funding is designed to provide an innovative approach for an improved delivery system, patient satisfaction and outcomes.
- Human Services (HS) continues to provide quality service to its clients despite the tremendous burdens brought upon by the economic downturn. As a result, state and federal funding increases in the HS - Administrative Claim, mostly in Transitional Assistance programs, and subsistence programs of CalWORKs, AFDC-Foster Care, and Aid to Adoptive Children were made to assist residents in need. HS departments are anticipated to serve an additional 381 CalWORKs cases (1% increase), 4,521 Medi-Cal cases (4% increase) and 16,014 Food Stamp cases (15% increase) over the prior year.

**Pursue County Goals and Objectives by Working with Other Government Agencies**

- In 2012-13, a \$2.6 million one-time allocation of discretionary general funding has been included for the potential amendment to the Sales Tax Agreement with the City of Fontana for projects within the unincorporated area which would free-up over \$1.5 million per year in ongoing revenue.



- A \$268,250 one-time allocation in support of grants development and non-profit capacity building initiatives is also recommended in 2012-13.

### **CHALLENGES IN FISCAL YEAR 2012-13 AND BEYOND**

In the coming years, the county faces the challenge of continuing to provide quality services to its residents while managing the impacts of reduced revenues and increased costs. In addition to the general economy, other major challenges facing the County include state budget impacts.

#### **State Budget**

In January, the Governor's Budget estimated that the State faced a \$9.2 billion budget deficit for fiscal year 2012-13. The May Revision, however, estimates that the deficit has increased to \$15.7 billion as a result of a reduced revenue outlook, a required increase in K-12 education spending and decisions by the federal government and courts to block previous budget reductions. The proposed budget attempts to close a portion of this gap through a revenue proposal by imposing a temporary personal income tax increase on the state's top income earners and a temporary quarter-cent increase in the State sales tax.

The May Revision proposes County impacts, including public safety and social services realignment and requisite funding; changes to CalWORKs, CalFresh, Child Support Services, Juvenile Offenders, Preschool Services and In-Home Supportive Services (IHSS) programs. While some state funding reductions are anticipated, adjustments for these impacts will be made in the quarterly budget reports, after the fiscal year 2012-13 State Budget is adopted and impacts are confirmed.

#### **Retirement Costs**

Due to the 2008-09 market losses, the County will still experience high retirement contribution rates over the next three fiscal years to ensure retirement liabilities will be funded at a proper level. Additionally, it is anticipated that the County could see an additional \$10.0 million in discretionary general fund retirement costs through 2015-16 as a result of insufficient market earnings for the County's Retirement Fund in 2011-12. As of March 31, 2012, the County's Retirement Fund had earned 0.6% for 2011-12, while the fund is required to earn 7.75% each fiscal year in order to adequately fund retirement liabilities. The County is continuing to actively seek to reduce future retirement costs through proposed compensation reductions as detailed above.

### **CONCLUSION**

The 2012-13 spending plan is structured to solve the remaining five-year \$91.5 million cumulative structural budget deficit. The strategic plan developed by the County Administrative Office outlines measures to address the anticipated cost increases for the next four years so that both the Board and staff can shift their focus to rebuilding the county. This approach eliminates the need to continually focus on programmatic cuts and mitigations, and creates a more positive dynamic.

The 2012-13 Recommended Budget focuses on major policy issues and key projects that require additional funding in an economic climate that continues to cause reductions in county programs and local government. The County is committed to making the most of its funding to provide necessary public services in an effective and efficient manner and fulfilling its role in the achievement of the Countywide Vision.